

Message Text

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TO AMEMBASSY KINSHASA IMMEDIATE

INFO AMEMBASSY PARIS

AMEMBASSY TOKYO

AMCONSUL JOHANNESBURG

S E C R E T STATE 011910

LIMDIS

E.O. 11652: GDS

TAGS: EFIN/EINV/EMIN/CG

SUBJECT: SMTF PROJECT: PROPOSED LETTER TO MOBUTU

REF: STATE 011933

1. PARAGRAPH FIVE BELOW IS TEXT OF LETTER APPROVED BY ALL
SMTF PARTNERS FOR DELIVERY TO PRESIDENT MOBUTU IN CONJUNC-
TION WITH VISIT TO KINSHASA JANUARY 19 TO INFORM HIM THAT
WORK ON SMTF PROJECT WILL HAVE TO BE SUSPENDED. DECISION
ABOUT WHETHER ACTUALLY TO DELIVERY LETTER OR RELY SOLELY
UPON VERBAL PRESENTATION WILL BE MADE BASED ON SITUATION
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PARTNERS FIND IN KINSHASA; AMONG CONSIDERATIONS WILL BE
WHETHER THEY ARE ABLE TO SEE MOBUTU PERSONALLY OR MUST
SETTLE FOR MEETING WITH BISENGIMANA.

2. LETTER IS ELEGANT SORESENSEN REDRAFT OF ABRASIVE STANDARD OF INDIANA ORIGINAL BUT CONTAINS SOME IMPLICATIONS WHICH EXIMBANK AND DEPARTMENT FEEL ARE INCORRECT AND REFLECT UNFAIRLY AND ADVERSELY ON EXIM/USG. AS WRITTEN, LETTER PUTS ONUS HEAVILY ON THIRD-PARTY LENDERS FOR FAILURE TO PROCEED. IT MASKS SHAREHOLDERS' UNWILLINGNESS TO ACCEPT RESPONSIBILITY FOR REPAYMENT OF EXIM, CHASE-SYNDICATE AND OTHER LOANS, UNDER COMPLETION GUARANTEE, WITHOUT ASSURED ADDITIONAL FINANCING FOR PROJECT COST OVERRUNS. LETTER ALSO MISTAKENLY SUGGESTS THAT DELAYS ON INGA-SHABA POWER LINE HAVE CONTRIBUTED TO DELAYS, AND THUS TO PROJECTED CET OVERRUNS, ON SMTF; OUR PERCEPTION IS THAT BOTH PROJECTS HAVE INDEPENDENTLY SUFFERED ROUGHLY EQUIVALENT DELAYS AND ARE STILL ESSENTIALLY IN STEP WITH EACH OTHER. FINALLY, LETTER MAKES CATEGORICAL STATEMENT ABOUT UNAVAILABILITY OF INTERIM FINANCING, WHEN IN FACT FAILURE OF PARTNERS AND WORLD BANK TO FIND MEETING GROUND CONCERNING COST-OVERRUN FINANCING RENDERED QUESTION OF INTERIM FINANCING ACADEMIC. HAD WORLD BANK AND SMTF BEEN ABLE TO REACH AGREEMENT, FRIENDLY GOVERNMENTS, INCLUDING U.S. AND APPARENTLY FRENCH, WERE WILLING AT LEAST TO TAKE SERIOUS, URGENT LOOK AT INTERIM FINANCING QUESTION.

3. DEPUTY SECRETARY INGERSOLL RAISED QUESTION OF LETTER WITH STANDARD CHAIRMAN SWEARINGEN JANUARY 14. FOLLOWING THAT, DEPTOFF, AFTER CONSULTATION WITH EXIMBANK, PROPOSED TO AMOCO EXEC VICE PRESIDENT BALLARD SPECIFIC LANGUAGE CHANGES IN LETTER GIVEN IN PARAGRAPH SIX BELOW. WE BELIEVE THESE ELIMINATE OBJECTIONS STATED PARA TWO ABOVE WITHOUT WEAKENING LETTER'S EFFECTIVENESS IN PRESENTING PARTNERS' CASE TO MOBUTU. BALLARD TOOK NOTE OF PROPOSED CHANGES, TOOK ISSUE WITH NONE OF THEM, AND AGREED TO PRESENT THEM TO OTHER PARTNERS WHEN THEY MEET OVER WEEKEND IN JOHANNESBURG. HE PROMISED TO REPORT GROUP'S REACTION EITHER THROUGH STANDARD HOME OFFICE TO DEPARTMENT BEFORE DEPARTURE FOR KINSHASA SUNDAY OR TO AMBASSADOR CUTLER IN KINSHASA MONDAY.

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4. DEPTOFF HAS ALSO GIVEN PROPOSED CHANGES TO TEMPELSMAN, WHO GRANTED POINTS PARA TWO ABOVE AND PROMISED TO ASSURE THEY WOULD BE REFLECTED IN ANY ORAL PRESENTATION. HE REITERATED HIS OWN SATISFACTION WITH EXIMBANK'S STEADFASTNESS ON PROJECT AND WITH USG EFFORTS TO HELP PARTNERS FIND SOLUTION TO THEIR PROBLEMS; HE PROMISED TO CONVEY THIS TO MOBUTU, WITH WHOM HE HOPES TO HAVE SEPARATE PRIVATE MEETING.

5. FOLLOWING IS TEXT OF PROPOSED SHAREHOLDERS' LETTER: QUOTE DEAR MR. PRESIDENT, WE TAKE THIS OPPORTUNITY TO REVIEW WITH YOU THE STATUS AND PROSPECTS OF THE TENKE-FUNGURUME PROJECT, AND THE STEPS WHICH IT WILL NOW BE NECESSARY FOR SMTF TO TAKE, AND TO REAFFIRM THE SPIRIT OF

COOPERATION BETWEEN YOUR GOVERNMENT AND THE COMPANY ON WHICH THE SUCCESS OF THIS PROJECT CONTINUES TO DEPEND.

AS YOU WILL RECALL, SMTF INITIALLY CONDUCTED THREE YEARS OF EXHAUSTIVE TECHNICAL AND ECONOMIC FEASIBILITY STUDIES. IN ORDER TO COMPLETE THE PROJECT AT THE EARLIEST POSSIBLE DATE, ACTUAL ENGINEERING, PROCUREMENT AND CONSTRUCTION THEN BEGAN IN 1974 IN THE FIRM BELIEF THAT THE NECESSARY

ARRANGEMENTS FOR THIRD-PARTY LOANS WOULD BE COMPLETED A FEW MONTHS THEREAFTER. THE FUNDS REQUIRED TO FINANCE THE WORK IN THE MEANTIME CAME FROM THE SHAREHOLDERS, WHO HAVE NOW EXPENDED OR COMMITTED MORE THAN \$250 MILLION ON THIS EXTRAORDINARY BASIS.

UNFORTUNATELY, AS BRIEFLY REVIEWED WITH YOU IN NOVEMBER, THE ARRANGEMENTS FOR THIRD-PARTY LOANS HAVE STILL NOT BEEN COMPLETED AND DELAYS HAVE ARISEN BECAUSE OF EVENTS WHOLLY BEYOND OUR CONTROL. THE COST OF THE PROJECT, ORIGINALLY ESTIMATED IN THE 1970 CONVENTION TO BE \$300 MILLION, AND AT THE TIME WORK WAS WELL UNDER WAY AT \$660MILLION, HAS ESCALATED TO ROUGHLY \$900 MILLION PRIMARILY AS THE RESULT OF WORLD-WIDE INFLATION OF EQUIPMENT, SUPPLY AND PERSONNEL COSTS INCLUDING FUEL, AND THE DISRUPTION OF SMTF TRANSPORTATION CAUSED BY THE WAR IN ANGOLA. RECURRENT FUEL SHORTAGES, FURTHER ANGOLA DISRUPTIONS AND THE CERTAIN POSTPONEMENT OF THE COMPLETION OF THE INGA-SECRET

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SHABA POWER LINE AND SHABA GRID REINFORCEMENT MAKE FURTHER COSTLY DELAYS INEVITABLE. BECAUSE OF THESE UNFORESEEN COSTS AND DELAYS, AND BECAUSE OF THE CONTINUING RECESSION IN WESTERN ECONOMIES AND WORLD COPPER PRICES (AND THE SEVERE EFFECT OF THESE ECONOMIC ADVERSITIES ON ZAIRE'S FISCAL AND MONETARY POSITION), THE THIRD-PARTY LENDERS -- INCLUDING PRIVATE BANKS AND GOVERNMENTAL EXPORT CREDIT AGENCIES -- HAVE BEEN AND ARE NOW UNWILLING TO COMMIT AND DISBURSE MONIES FOR THE PROJECT UNTIL THESE UNCERTAINTIES ARE CLARIFIED (INCLUDING THE TIMING, COST AND AVAILABILITY OF POWER FROM THE INGA-SHABA PROJECT, WHICH HAS ALSO HAD SUBSTANTIAL COST OVERRUNS FOR WHICH FINANCING HAS NOT YET BEEN SECURED.)

TWO UNAVOIDABLE CONCLUSIONS RESULT FROM THE ABOVE:

(1) FIRST, IT IS CLEAR THAT ADDITIONAL EXTERNAL FINANCE WILL BE REQUIRED IN MASSIVE PROPORTIONS, NECESSITATING ADDITIONAL CONSORTIUM MEMBERS AND THIRD-PARTY LENDERS, AND A REORGANIZATION OF ALL SMTF FINANCIAL ARRANGEMENTS AND CONSEQUENTLY THE PROJECT. IN THIS REGARD, WE HAVE -- WITH YOUR STRONG SUPPORT, FOR WHICH WE ARE MOST GRATEFUL -- MADE A COMPREHENSIVE, HIGH-LEVEL

PRESENTATION TO THE WORLD BANK IN WASHINGTON. UNFORTUNATELY, THE BANK WAS UNABLE TO FIND, ON ACCEPTABLE TERMS, THE ADDITIONAL MONIES REQUIRED IN THE FORM OF EQUITY AND LOANS TO FINANCE THAT PORTION OF THE PROJECT'S COST NOT CONTEMPLATED WHEN DEVELOPMENT WORK BEGAN. IT IS OUR INTENTION, HOWEVER, TO PURSUE THIS MATTER WITH THE WORLD BANK AND OTHERS, BUT IT IS CLEAR THAT THIS WILL

REQUIRE A SUBSTANTIAL PERIOD OF TIME DURING WHICH THE AFOREMENTIONED FEARS OF PROSPECTIVE LENDERS MUST BE EASED.

(2) SECOND, IT IS CLEAR THAT THE EXISTING SHAREHOLDERS CANNOT CONTINUE TO FINANCE DEVELOPMENT ON THEIR OWN AND, INDEED, HAVE ALREADY PASSED THE POINT OF FINANCIAL PRUDENCE BEYOND WHICH THE PROJECT WOULD BE BETTER SERVED BY THEIR CONSERVING THEIR ALLOCATED FUNDS UNTIL SUCH TIME AS THOSE FUNDS CAN BE CONTRIBUTED ALONG WITH THOSE OF
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OTHERS UNDER A NEWLY REORGANIZED PROGRAM. IT WAS NEVER INTENDED THAT THE SHAREHOLDERS WOULD CONTRIBUTE AS MUCH AS \$250 MILLION BEFORE FUNDS FROM THIRD-PARTY LENDERS WERE FORTHCOMING.

THEREFORE, IN VIEW OF THE ABOVE-MENTIONED DELAYS, AND BECAUSE NO OTHER INTERIM SOURCE OF FINANCING CAN BE FOUND TO CONTINUE PROJECT DEVELOPMENT UNTIL THE REORGANIZATION INDICATED ABOVE CAN BE COMPLETED AND MONIES DISBURSED THEREUNDER, IT WILL BE NECESSARY FOR SMTF TO TEMPORARILY SUSPEND PROGRESS ON THE PROJECT DURING THIS INTERIM PERIOD.

SPECIFICALLY, IT IS OUR INTENTION DURING THE SUSPENSION PERIOD THAT SMTF PROVIDE EMPLOYMENT FOR ALL ZAIROIS PERSONNEL NOW ON THE SMTF PAYROLL TO CONDUCT MINIMAL OPERATIONS, CARRY OUT CARE AND MAINTENANCE DUTIES ON FACILITIES AT THE SITE, AND KEEP OPEN THE MEDICAL CLINIC, FARM AND OTHER BASIC ACTIVITIES; AND TO PAY WITH RESPECT TO THOSE ZAIROIS ON INDEPENDENT CONTRACTOR PAYROLLS THE COST OF THEIR PROMPT TRANSPORTATION BACK HOME (TO BE UNDERTAKEN, OF COURSE, WITH THE COOPERATION OF YOUR GOVERNMENT), THE REDUNDANCY PAY TO WHICH THEY ARE LEGALLY ENTITLED, AND AN ADDITIONAL AMOUNT EQUAL TO TWO MONTHS OF THEIR PRESENT WAGES, THE LATTER AMOUNT TO BE PAID AT YOUR DIRECTION, IN WHOLE OR IN PART, EITHER (A) DIRECTLY TO SUCH PERSONNEL IN CONJUNCTION WITH THEIR RETURN HOME, OR (B) FOR SERVICES TO BE RENDERED BY THEM ON SUCH ROAD-BUILDING, AGRICULTURAL OR OTHER PROJECTS AS YOUR GOVERNMENT MAY WISH TO SPONSOR WITH THESE FUNDS IN THEIR HOME AREAS. EVERY REASONABLE EFFORT SHALL BE MADE TO ASSURE SUCH EMPLOYEES A PRIORITY OPPORTUNITY TO BE REEMPLOYED AS

SOON AS FULL-SCALE WORK RESUMES ON THE PROJECT.

IT IS FURTHER OUR INTENTION THAT SMTF POSTPONE RATHER THAN CANCEL ALL PURCHASE ORDERS, WHEREVER FEASIBLE, TO MAINTAIN ALL EQUIPMENT, SUPPLIES AND FACILITIES IN A CONDITION SUITABLE TO THE MOST RAPID RESUMPTION OF WORK PRACTICABLE; AND TO CARRY OUT THE ENTIRE SUSPENSION

PROCESS IN A MANNER CAPABLE OF BEING REVERSED AS PROMPTLY
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AS FEASIBLE ONCE THE NECESSARY EVENTS TAKE PLACE. IN SHORT, ALL THAT IS REASONABLY POSSIBLE UNDER THE CIRCUMSTANCES WILL BE DONE TO PERMIT THE COMPLETION OF CONSTRUCTION AND THE COMMENCEMENT OF PRODUCTION AT TENKE-FUNGURUME AT THE EARLIEST PRACTICABLE DATE.

ALTHOUGH THE DURATION OF THE SUSPENSION PERIOD DEPENDS UPON EVENTS BEYOND SMTF'S CONTROL, WE WILL CONTINUE OUR EFFORTS WITH THE WORLD BANK AND OTHERS TO RESTORE THE CONFIDENCE OF LENDERS AND REORGANIZE THE PROJECT'S FINANCING. IN THE MEANTIME, SMTF INTENDS TO TAKE ADVANTAGE OF THIS PERIOD TO STUDY ALTERNATIVE MEANS OF IMPROVING THE PROJECT, INCLUDING AN EXAMINATION OF HIGHER LEVELS OF PRODUCTION AND EMPLOYMENT, AND OF ACCELERATING ITS CONSTRUCTION UPON RESUMPTION. WE TAKE THIS OPPORTUNITY TO STRESS TO YOU OUR CONTINUED FAITH IN THE VIABILITY AND ULTIMATE SUCCESSFUL DEVELOPMENT OF THE TENKE-FUNGURUME DEPOSITS AND OUR DESIRE THAT WE GO FORWARD WITH EVEN GREATER VIGOR AT THE CLOSE OF THIS SUSPENSION PERIOD.

WE REALIZE THAT THIS TEMPORARY DELAY IN THE COMPLETION OF THE TENKE-FUNGURUME PROJECT, AND THE MANY EVENTS WHICH NECESSITATED IT, ARE AS DISAPPOINTING TO YOU AS THEY ARE TO ALL OF US. BUT WE TAKE HEART FROM THE GREAT SPIRIT OF CONSTRUCTIVE COOPERATION WHICH HAS ALWAYS CHARACTERIZED YOUR APPROACH TO THIS PROJECT AND FOR WHICH WE SHALL ALWAYS BE GRATEFUL. IN THAT SAME SPIRIT, IT IS ESSENTIAL THAT BOTH THE GOVERNMENT AND SMTF CONTINUE TO PROVIDE INDISPENSABLE COLLABORATION IN ORDER TO OVERCOME THEIR COMMON DIFFICULTIES AND ACHIEVE THEIR COMMON OBJECTIVES. WE ARE GRATEFUL FOR YOUR UNDERSTANDING OF THE CIRCUMSTANCES WHICH NECESSITATE THE PRESENT ACTION; WE LOOK TO YOU FOR ADVICE AND ASSISTANCE IN ACHIEVING AN EFFICIENT REDUCTION OF ACTIVITY AT THE SITE IN A MANNER CONDUCIVE TO AN EARLY AND ECONOMICAL RESUMPTION OF WORK IN THE FUTURE; AND WE APPRECIATE YOUR ANNOUNCED COOPERATION WITH THE IMF AND YOUR ASSISTANCE IN OUR EFFORTS WITH THE WORLD BANK AND OTHER PROSPECTIVE LENDERS IN SUCH A WAY AS TO HELP MAKE THIS INTERIM PERIOD AS BRIEF AS POSSIBLE.

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PLEASE ACCEPT THESE RENEWED EXPRESSIONS, MR. PRESIDENT, OF
OUR DEEPEST GRATITUDE AND HIGHEST RESPECT.
SINCERELY, UNQUOTE.

6. FOLLOWING ARE DEPARTMENT'S PROPOSED CHANGES:

A. THIRD SENTENCE, SECOND PARAGRAPH WOULD BE CHANGED TO
READ: "RECURRENT FUEL SHORTAGES AND FURTHER TRANSPOR-
TATION DISRUPTIONS CAUSED BY EVENTS IN ANGOLA MAKE FURTHER
COSTLY DELAYS INEVITABLE."

B. IN SAME PARAGRAPH, FOLLOWING SENTENCE, WORDS "SOME
OF" WOULD BE INSERTED AFTER THE PARENTHETICAL AND BEFORE
PHRASE "THE THIRD-PARTY LENDERS".

C. LAST SENTENCE OF NUMBERED SUBPARA (1) OF PARA FOUR
WOULD END WITH WORDS, "...REQUIRE A SUBSTANTIAL PERIOD OF
TIME." PHRASE, "DURING WHICH THE AFOREMENTIONED FEARS
OF PROSPECTIVE LENDERS MUST BE EASED" WOULD BE DELETED.

D. FIRST SENTENCE OF PARA FIVE WOULD BEGIN, "THEREFORE,
IN VIEW OF THE ABOVE-MENTIONED DELAYS, AND BECAUSE OF THE
UNCERTAIN PROSPECTS OF FINDING INTERIM SOURCES OF FINANC-
ING TO CONTINUE..." AND THEN FOLLOW ORIGINAL TEXT. KISSIMVER

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